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Have the right plan, the right tech – and the right people

Hugh Torpey of IMI asks economist Dr Chris Roebuck about preparing for a dynamic future

The financial services sector is changing almost beyond recognition. Hyper-personalisation, digitisation, increased regulation, both disruptive start-ups and major brands entering the market at an increasing pace . . . these are just some of the challenges facing traditional operators and burgeoning competitors.

IMI sat down with the economist Chris Roebuck to discuss the future of financial services, and what leaders from banking, fintech, big tech, start-ups and the regulators themselves need to do in this new environment.

What are the big challenges in the financial sector right now?

The financial services world is going through significant transformation driven by a wide variety of factors from customer expectations to digital developments. The breadth of these changes is increasing complexity, and all this within a regulatory environment.

Not only are these changes large, but they are also happening rapidly, introducing totally new business models.

This means that the route to future success may well be based on actions that the organisation has absolutely no previous experience of. So unlike previous change where institutions changed piecemeal now the structure and entire way of working is transforming at the same time.

This is unprecedented.

It's also in areas we don't first think of. The impacts of fintech are often seen as being about the tech elements of the organisation but they also have significant impact on people.

Since the financial crisis employment in banking has dropped by over 40 per cent in Europe. Not only that but the type of people you now need is changing as well, so you need not only fewer people you need a different internal demographic as well. That's not easy to achieve.

In your own experience, what is digital in particular doing to the way the financial services industry is operating?

It is changing the whole way that organisations work top to bottom. That's challenging enough, but even more challenging is changing the mindset of people who have worked (and developed their way of thinking) in a non-digital environment.

What should be happening and what is happening are perhaps slightly different. Inevitably, people and organisations need to recognise the need for change, and that in itself can take time. Some parts of financial institutions have traditionally been slow to change. But change is being forced on them.

I would say digital is enabling:

- New disruptive competitors emerging
- Changing customer expectations
- A deeper look at the cost of legacy systems – is there a cheaper way of doing what we do?

And these are combining with:

- Low interest rates
- A regulatory burden that never decreases

As a combination of circumstances, that's pretty much a game changer – a new world you need to move into or face a slow decline into failure.

Where do the greatest challenges lie – let's take the traditional banks first – is it getting the right technology, developing internal people to utilise that technology, or hiring great external people to drive the change?

I think there is a step that precedes all of those – what is our optimum market and customer? There is a real possibility that this may have changed with the digital revolution and arrival of new players.

Customers are not homogenous; their demographics, incomes, expectations, mindsets, and even lifestyles are all different and maybe dynamic. Yesterday's profitable customer may not be tomorrows.

Customers increasingly want 24/7 availability, real-time capability, personalised offerings and a low friction user experience. Once you know who your customer of the future is then it's about matching the technology, the people and the strategy to serve that customer.

It must be a real challenge for the regulators too – do you see the development going on there that will need to be done to keep up with the changing marketplace?

Definitely. Albeit with a few surprises. Regulations traditionally have been a step behind what's happening in the industry, and often regulation is a result of someone doing something they shouldn't, which then becomes regulated to prevent a repeat.

So, to some degree regulators are always trying to keep up with what's happening at the leading edge, if not predict where that leading edge is going next and where the systemic risks might be.

There is also an element of a need for differential regulation where regulators are more flexible with new entrants to encourage new players to help them develop. This requires a flexibility within the regulators not traditionally present.

What are the specific things leaders should be looking to do? What's the right mindset to have in a shifting environment?

It's all about the fundamental questions of "where do we need to be in the future", "where are we now" and "how do we get there". These questions need to be answered to provide a clear and simple strategy to deliver a sustainable and profitable future. The problem is that gaining such clarity in such a complex and dynamic environment is very difficult for most senior leaders.

Their traditional career development has given them an in-depth understanding of their area of expertise but to answer these key questions (and indeed be a credible and effective strategic leader for their organisations) requires an understanding of the big picture both inside and outside their organisations – the evolving ecosystem.

That's what they need: the critical knowledge of the wider ecosystem, market dynamics, and the leading-edge developments available to them. This combined with the enhancement of their leadership will enable them to guide their teams, colleagues and organisation to have that profitable and sustainable future.

So, it's not just about being in the market, it's about being a market leader in all senses.

> **Digital is changing the whole way that organisations work top to bottom**

Dr Chris Roebuck is programme director for the Future of Financial Services Leadership programme, aimed at preparing leaders in the sector for the future economy. The programme is in association with IFS Skillnet and the Banking and Payments Federation Ireland

Leading with intent in Irish multinationals

If Irish-based subsidiaries of foreign multinationals want to stay on top, they need to add value beyond tax rates, writes **David Cornick**

There can be little question that one of the great success stories of the Irish economy is our continuing ability to attract foreign direct investment (FDI) to these shores.

However, recent Irish Management Institute (IMI) research suggests that in order to continue this success story, local leadership teams will need to enhance their ability to influence strategic decisions on the international stage.

And when we look at the numbers, there is a lot to influence.

Viewing FDI companies as a percentage of GDP, Ireland is easily considered one of the most globalised countries in the world. Inward economic flows from FDI companies accounted for 66 per cent of Ireland's GDP in 2015, compared to 1 per cent from our British neighbours.

FDI companies employ about 300,000 people in Ireland, according to the Central Statistics Office, and employment in this sector grew by 7 per cent in 2018, compared to the national average of 3 per cent.

These statistics show the outsized influence FDI companies have on the Irish economy, but do not show the influence the leadership teams in these Irish hubs are having on their home headquarters.

Challenges for Irish FDI firms

Through focus groups, workshops, interviews and surveys with 25 senior leaders representing the Irish-based subsidiaries of foreign multinationals, IMI (in association with IDA Ireland) identified four critical challenges facing the leadership teams.

One of the major challenges for leaders was building and sustaining a sphere of influence. Better leveraging their own ecosystem, optimising the strengths associated with Irish leaders, and creating a compelling strategic narrative to 'sell' to their international counterparts are seen as key to increasing their influence.

The leadership teams are focused on how they create value for their corporation and how they get involved in terms of the strategic direction. What we're looking for them to do now is get their head above the parapet, drive strategies forward and add more value.

With disruption hitting almost every business model, developing a transformative mindset was the second challenge identified. It can be easy to slip into the 'cog in a wheel' approach, even as a senior leader of a subsidiary, but being an active change agent is vital when delivering on what will be required transformative change.

A more empowered local leadership team will be able to capitalise on opportunities to innovate while excelling in their charter, and in turn this will be crucial from differentiating the Irish subsidiary from other bases around the world, protecting it from global economic forces.

Leo Clancy, head of technology, consumer and business services at IDA Ireland, said: "There isn't a c-level executive I've met over my time at IDA who wouldn't agree that having a more empowered local subsidiary management team that can do more for the corporation and add more value back isn't a good thing. And I think that's the core aim: that we have a self-determined team of leaders in Irish subsidiaries that can offer more value back to their corporate entity."

David Cornick

The third challenge is directly associated with globalisation – the ability to navigate cultural complexities. Working in matrixed organisations, across different geographies, with culturally-diverse colleagues and stakeholder, leaders must develop the abilities to not only manage these cultural differences but to leverage them.

The final challenge identified is attracting and retaining future leaders. Future-proofing the organisation through strategic talent management and succession planning is fundamental for success down the road, both at local and international level.

Lead with intent

Leaders in Irish subsidiaries of FDI companies have played an out-sized role in global economics over the last two or three decades and in the Irish economy itself.

The vagaries of international economics, however, shows that foreign investment can shift from one country to another, and to remain on top requires adding value beyond tax rates.

By examining their roles as subsidiary players in the overall multinational game plan, building a unique leadership vision and value proposition within that game plan, and developing their ability to manage and strategically influence stakeholders in a matrixed, multi-cultural context, leaders in Irish subsidiaries can continue to be at the heart of their HQ's thinking.

David Cornick is programme director for the Leading with Strategic Intent programme, designed in association with IDA Ireland for leadership teams in FDI subsidiaries.

Increased diversity really does lead to a better bottom line

Fiona Buckley

Results talk. If you want to change someone's ingrained behaviour – a difficult task at the best of times – one of the most powerful motivators is that the proposed change will make them economically better off.

Increasing gender diversity in the upper echelons of organisations seems to make inherent sense. With a wider variety of voices, a wider variety of opinions will be considered, and customers will be better served.

Better innovation, better decision-making and the ability to attract better talent are all lauded as benefits of greater diversity, but where are the results? Where's the evidence?

Luckily for leaders, this is an area that has seen significant research done in the last number of years to make a strong business case for greater diversity at all levels.

Better decision-making

Organisations makes tens of thousands of decisions every day, but moving the needle in a positive direction when it comes to decision-making can feel like an impossible task for leaders. A key action they can take, however, is increasing diversity within the workforce and leadership.

Research done in 2017 showed a clear case for better decision-making when it is being carried out by a diverse team. When the teams were all male, good decisions were made 58 per cent of the time. When the teams had good gender diversity, this rose to 73 per cent (already statistically significant).

When you add in greater age, gender and geographic diversity, better decisions were made 87 per cent of the time.

For those leaders (and others) wishing to make faster decisions and spend less time in meetings discussing those decisions, teams that follow an inclusive process make decisions twice as fast and have 50 per cent fewer meetings to do so compared to a non-inclusive process. These diverse teams are also much less likely to fall into the trap of 'groupthink'.

Innovation

Innovation is the key to both survival and growth over the coming years. Most business models are being disrupted, so it is the companies who can innovate successfully in the new economy that will forge ahead of the competition.

Understanding customers has always been a key to great innovation and, according to the Centre for Talent Innovation, teams are up to 158 per cent more likely to understand target consumers when they have at least one member who represents their target's gender, race, age, sexual orientation, or culture.

This is even more applicable at senior leadership levels. A 2017 study showed that companies with higher diversity in management earned 38 per cent more of their revenues, on average, from innovative products and services in the last three years than companies with lower diversity.

Women as leaders

The 'leader as superhero' concept has taken a back seat over the last decade, replaced by more humble styles of leadership. The reason for this was to increase trust in the workforce, enhance engagement, innovate better, reduce fear and create greater loyalty, among other aims.

The characteristics of these new types of leaders were used in a major study, by the Harvard Business Review, of 7,300 leaders. The results showed women scored higher than men on 12 of the 16 key characteristics they had identified, such as developing others, collaborating, taking initiative, driving for results and solving problems.

This broader range of skills – and notice how many of the heightened traits are dealing with other people – allow for greater team cohesion and development.

Financial results

When you improve your innovation, decision-making and the leadership team itself, you would expect the financial results to improve – and you would be right.

According to McKinsey, the most gender-diverse companies are 21 per cent more likely to experience above-average profitability. Another study found that companies with the most female board directors had 16 per cent higher return on investment than those with the least, and 26 per cent higher return on invested capital.

When companies had sustained high representation of females at the top leadership levels, these results get even better.

Diversity: not a fad, but an imperative

It would be easy for people to dismiss diversity as a trend, a politically correct movement that looks good in headlines but doesn't affect the bottom line. When we look at the research, however, we can clearly see that greater diversity is becoming a business imperative.

We are currently in the opening stanzas of the digital age. Disruption is coming from multiple angles, and organisations are being challenged to figure out new ways to deliver for their customers. This can only be overcome if we move fast, make better decisions, continuously innovate solutions and attract the best talent to execute our strategies.

Greater diversity is not the only solution to these macro challenges, but the facts show that it's more than just a good first step.

Fiona Buckley is programme director for the Women in in Aviation Finance Leadership programme, designed in association with Aviation Skillnet, PropelHer and the 30 Per Cent Club